Incorporated Advisors: The Advantages
Like many other self-managed professionals already reaping the benefits of Professional Incorporation (financial planners, insurance agents and some mutual fund advisors), Financial Advisors will benefit from expanded options on a more level playing field. The following covers off some of these advantages.

At Raymond James, the concept of “business your way” has always been fundamental to our core beliefs. From our perspective, Financial Advisors deserve to have choice in how they build their business and serve their clients.

In the summer of 2003, we were instrumental in the approval of the Principal/Agent model in Canada which allows Advisors to work as Independent Contractors rather than as employees of a firm. We continue to work with industry regulatory bodies advocating the further extension of choice for Advisors to include Professional Incorporation.

Much progress has been made. The Investment Dealers Association has recently approved amendments to the Principal/Agent By-law 39 that would allow retail Advisors to structure their business as a personal corporation. This amendment is now in the hands of the provincial securities commissions for final approval.

We believe it is essential that all professionals in our industry fully understand the impact of Professional Incorporation to their business growth and career progression. Are you ready?

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**Tax Savings & Financial Management**
- Lower tax payable on up to $300k income per year, due to the difference in income tax rates between personal tax and corporate tax.
- Access to the $500k lifetime capital gains exemption on qualified small business corporation shares.
- Income splitting potential where other family members are shareholders.

**Retirement and Legacy Planning**
- The potential for placing $245k or more per year in your professional corporation’s retained earnings.
- The potential for using the retained earnings to fund your retirement lifestyle.
- The possibility to create and fund an Individual Pension Plan (IPP), thereby providing potentially far greater contributions to your tax-sheltered retirement plan.

- The corporation can continue after the retirement or death of the founder. Pension and Survivor Benefits can be provided by the corporation.

**Operational and Structural Benefits**
- The potential to enhance income splitting possibilities to include spouse and/or children.
- The possibility of recognizing some expenses as deductible business expenses, which would be after tax-expenses in an employee structure.

For more information about potential benefits, including a case study that depicts how Professional Incorporation can apply to a Financial Advisor, please visit our website: www.AdvisorChoice.ca.
What has brought about this regulatory change?
Following the implementation of the Principal/Agent By-law 39 in May 2003, IDA member firms – including Raymond James – asked the Association to expand the acceptable business structures now allowed between Members and their Advisors. With the recent IDA approval, we are now closer to having a third business structure – Incorporated Advisors, which would work within the Principal/Agent framework.

What does this change mean?
This IDA decision serves to level the playing field with other investment professionals who currently are able to incorporate. These include insurance licensed agents, financial planners and some mutual fund advisors.

What’s the next regulatory step?
The IDA has submitted its proposed amendments to By-law 39 (now renamed as “Business Structures”) to the securities commissions for approval. The Canadian Securities Administrators (CSA) will look into the required legislative changes that would allow Professional Incorporation.

What kind of Advisor would be a good candidate for Professional Incorporation?
The choice to professionally incorporate demands experience. It’s not suitable for a novice Advisor; instead, it’s more suited to a seasoned Advisor who has ownership and control of his or her book, with a specific risk of loss or opportunity for gain in their business.

Why is ownership and control important?
Ownership and control are key prerequisites for becoming incorporated; you cannot incorporate a business if you don’t own it. In today’s existing models, the Principal/Agent structure accommodates the key elements of ownership and risk of loss/opportunity for gain. The traditional employee model satisfies neither prerequisite.

Can an Advisor incorporate and remain an employee of their current firm?
No. You cannot be an employee of an IDA member firm to take advantage of Professional Incorporation. Rather, you would have to move from employee status to Independent Contractor status and work within the Principal/Agent Model.

What are the advantages if I incorporate as an Advisor?
There are two main advantages. You would have enhanced freedom and independence to build your business and strengthen your career. Plus, you would benefit from the significant business planning and tax-saving options inherent in Professional Incorporation.

What are some of the tax advantages?
There are four principal tax benefits associated with an Independent Contractor carrying on his or her business through a private corporation.

- **Annual Tax Savings** – by flowing your commissions through a corporation and paying a portion of your taxes at a corporate rate rather than a personal rate.
- **Annual Tax Deferral Benefit** – accumulating income in the corporation’s retained earnings.
- **Potential Income Splitting Benefits** – including other family members as shareholders of the corporation.
- **$500k Lifetime Capital Gains Exemption** – creating an opportunity for future tax savings if the eventual sale of the Advisor’s book is structured as a sale of the corporation’s shares.

Will clients have to be informed about an Advisor’s decision to incorporate?
Clients may be informed of this decision. However, the decision in itself will not alter the relationship they have with their Advisor, nor will it impact the services they currently enjoy.

What is the impact of the Professional Incorporation business structure for clients?
None. They would continue to receive the same services, reporting and protection.

Does the status of the Advisor’s registration change if he/she incorporates?
No. The Advisor’s responsibilities and accountabilities to their clients, their firm, and the industry remain the same.

Does incorporating change my personal risk or liability?
The Personal Corporation business structure preserves the concept of personal liability. As a result, the Incorporated Advisor and the member firm would face the same level of responsibilities and liabilities as is currently the case.

Want to learn more?
Please visit our website: www.AdvisorChoice.ca, sign-up for our confidential emails, or call us toll-free: 1-866-204-6380.

**Raymond James**

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